

JAN 27 1993

## **BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE APPLICATION )  
OF IDAHO POWER COMPANY FOR )  
AUTHORITY TO SELL ITS HAILEY )  
TURBINE ELECTRIC GENERATOR )**

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**CASE NO. IPC-E-92-9**

**ORDER NO. 24676**

On March 9, 1992, the Idaho Power Company (Idaho Power; Company) filed an Application with this Commission for authority to sell its turbine electric generator (Hailey Turbine) located approximately two miles north of Hailey, Idaho at the Company's Wood River Substation.

### **APPLICATION**

According to the Application, the Hailey Turbine is a General Electric Frame 7, model MS 7001 B (C), dual fuel turbine electric generator with a rating of 49,580 kW. The equipment proposed for sale includes the fuel handling equipment, two auxiliary transformers, the carbon dioxide fire control unit, the waste sump, the 4.16 kV auto transfer unit for starting, all special tools, spare parts and manuals as well as the turbine generator unit itself.

The Company notes that on February 6, 1974, in Case No. U-1006-89, by Order No. 11315, Idaho Power was granted Certificate of Public Convenience and Necessity No. 272 for the construction and installation of the Hailey Turbine. The original purpose for the turbine was to provide increased reliability to the Hailey-Ketchum-Sun Valley area. The Application states that Idaho Power has completed construction of a second 138 KV transmission line into the Wood River Valley, rendering the Hailey Turbine redundant.

Idaho Power contends that problems involving the availability of fuel and the local environmental impact that the Hailey turbine has had at its present site have forced the Company to omit the turbine as a resource for planning purposes from Idaho Power's current studies for new resource planning or avoided cost determination. Because of this, the Company contends, the sale of the Hailey Turbine will not affect Idaho Power's "Appendix A" loads

and resources assessment established by the Idaho Public Utilities Commission in Case No. IPC-E-89-11, Order No. 23357, setting avoided cost rates for power purchases from PURPA qualifying facilities.

Idaho Power asserts that it would have no need for the Hailey Turbine until the year 2002 at which time it would be nearly 30 years old. By that time, the Company contends, the turbine will be outdated and would require additional improvements in order to be useful. Furthermore, Idaho Power states that an economical supply of natural gas for delivery at the present location is not available. In order to obtain lower natural gas prices, Idaho Power contends, the Company would have to guarantee the minimum operation of the turbine at a 20% annual plant factor. This would force the operation of the turbine when less costly alternatives are available such as Idaho Power's share of the Bridger, Boardman and Valmy generation units.

The Company states that it is also hesitant to utilize the turbine because of complaints received from local residents regarding excessive noise and vibration when the turbine was utilized in the past. In addition, if the machine were to operate 20% of the year or more, the Company states that it would have to add equipment to reduce the amount of air pollutants exhausted into the Wood River Valley atmosphere.

Finally, the Company states that, if left in place, the Hailey Turbine would require ongoing maintenance in order to keep it in operating condition.

Idaho Power estimates that a capital expenditure of \$10 million would be needed to relocate the turbine to a site near the main gas pipeline, to refurbish the unit as required for increased operation, to install air pollution control equipment required at a new site and to provide all the electrical equipment to connect to Idaho Power's transmission system.

A Notice of Application was issued by the Commission on April 2, 1992 establishing a comment period. The only party to file comments was the Commission Staff.

On December 30, 1992, the Company filed a Verified Notification of Sale with the Commission indicating that the Company had secured a buyer; Longview Fibre Company (Longview Fibre). Attached to the notification is a

copy of the Purchase and Sale Agreement executed by Idaho Power and Longview Fibre. Under the Agreement, Longview Fibre agrees to pay Idaho Power \$8 million for the turbine. The net book value of the turbine as of December 31, 1992 was \$1,473,000. In addition, Longview Fibre is responsible for the costs of relocating the turbine to its pulp and paper mill in Longview, Washington. Idaho Power will incur as of yet unknown costs in restoring the former site of the turbine.

Idaho Power proposes to file for an accounting Order with the Commission no later than September 30, 1993 to determine the appropriate ratemaking and accounting treatment to be given the sale.

#### **COMMISSION STAFF**

The Commission Staff supports Idaho Power's Application. Staff agrees with the Company that, because of the recently constructed transmission line serving the Wood River Valley, the Hailey Turbine has been rendered superfluous.

Staff analyzed the potential use of the Hailey Turbine as a peaking resource. For purposes of its analysis, Staff accepted Idaho Power's relocation, refurbishment and interconnect cost estimate of \$10 million as reasonable. Based upon a rated capacity of 50,000 kilowatts, this computes to an approximate \$200 per kilowatt cost for the Hailey Turbine. To this estimate, Staff added the Company's estimated lost sale opportunity cost of \$131 per kilowatt. This is calculated as follows: \$8,000,000 sale price - \$1,473,000 net book value at 12/31/92 = \$6,527,000 ÷ 50,000 kilowatt rated capacity = \$131 per kilowatt.

Combining the \$202 per kilowatt cost of refurbishing the Hailey Turbine with the \$131 per kilowatt lost sale opportunity cost yields a unit capacity cost of keeping the turbine of \$333 per kilowatt. Assuming a 1993 delivered gas cost of \$2.10 per MMbtu escalating at 4.5% per year, Staff found that the unit cost of this resource is well above the Company's applicable avoided cost rate even assuming a 70% capacity factor. In reality, the most optimistic capacity factor that could be reasonably expected for this unit is 35%, with 25% being much more probable. Because lower capacity factors mean higher fixed cost allocations, Staff concurs with Idaho Power that the Hailey Turbine is not economical at this time.

Staff also agrees with the Company that future combustion turbine technologies will be much more efficient than current technologies, the latter of which themselves are substantially more efficient than the technologies incorporated into the Hailey Turbine.

In light of the foregoing, Staff agrees that, for ratepayers, the highest and best use of the Hailey Turbine is to sell it as proposed by Idaho Power.

Staff agrees that all accounting issues pertinent to the proposed sale, including how the proceeds of the sale will be booked, can be deferred until a supplemental filing is made by the Company no later than September 30, 1993, or until the filing of the Company's next general rate case, whichever occurs first.

## **FINDINGS**

### **Economic analysis**

We find that, not only is the Hailey Turbine now redundant, it is also no longer economically viable in its present configuration. According to Staff's analysis, which we accept, the cost of operating the turbine as a peaking resource would far exceed the Company's avoided cost. Thus, for all practical purposes, it is unlikely that the turbine will ever be operated by Idaho Power. The Company's desire to dispose of one of its most expensive energy producing resources is certainly consistent with its efforts to acquire new resources at the least possible cost; a policy we fully support. Furthermore, we note that the carrying charges the Company incurs in owning the Hailey Turbine far outweigh any possible benefit that could ever be derived from its use, considering the time value of money.

### **Legal analysis**

Pursuant to *Idaho Code* § 61-328, an electric public utility must obtain approval from the Commission before it sells or transfers ownership in any generation, transmission or distribution plant. Section 61-328 provides:

**61-328. Electric utilities--Sale of property to be approved by commission.**--No electric public utility or electric corporation as defined in chapter 1, title 61, Idaho Code, owning, controlling or operating any property located in this state which is used in the generation, transmission, distribution or supply of electric power and energy to the public or any

portion thereof, shall sell, assign or transfer, directly or indirectly, in any manner whatsoever, any such property or interest therein, or the operation, management or control thereof, or any certificate of convenience and necessity or franchise covering the same, except when authorized to do so by order of the public utilities commission of the state of Idaho. Such authorization and order shall be issued only following public notice and hearing, upon verified application of the parties setting forth such facts as the commission shall prescribe or require, and if the commission shall find that the public interest will not be adversely affected, that the cost of and rates for supplying service will not be increased by reason of such transaction, and that the applicant for such acquisition or transfer has the bona fide intent and financial ability to operate and maintain said property in the public service; provided, that no such order or authorization shall be issued or granted to any applicant or party coming within the prohibitions set forth in this act. The commission shall have power to issue said authorization and order as prayed for, or to refuse to issue the same, or to issue such authorization and order with respect only to a part of the property involved, and may attach to its authorization and order such terms and conditions as in its judgment the public convenience and necessity may require.

**Will the public interest be adversely affected by the sale of the Hailey turbine?**

As we have previously held, the Hailey Turbine is no longer of use to Idaho Power or its ratepayers. The longer Idaho Power retains ownership of the turbine in its present configuration, the more obsolete and, therefore, the less valuable it becomes. We find, therefore, that not only will the public interest not be adversely affected by the sale of the turbine, the Company's ratepayers will actually realize a financial gain by the sale of an asset that is non-functional and almost fully depreciated.

**Will the cost of and rates for supplying service be increased by the sale of the Hailey turbine?**

As held above, Idaho Power's ratepayers will actually realize a financial benefit from the sale of the Hailey Turbine. Therefore, we find that rates will not be increased as a result of the proposed sale.

**Does the purchaser of the Hailey Turbine have the bona fide intent and financial ability to operate and maintain the plant in the public service?**

Resolution of this issue depends upon an interpretation of the phrases "bona fide intent," "financial ability" and "in the public service." We believe that it was not the intent of the Idaho Legislature, in drafting § 61-328, that an electric utility operating in Idaho never be allowed to sell electric generating plant to a purchaser who will ultimately use that plant outside of the State, particularly when it is in the interests of the ratepayers and the people of Idaho to make such a sale.

The Hailey Turbine, for all practical purposes, has been rendered economically obsolete to Idaho Power and its ratepayers. The sale of the turbine should have absolutely no effect on the quality of service customers currently receive. Therefore, we find that the statute does not require that the plant continue to be operated in Idaho Power's service territory or within the State of Idaho.

**Does the purchaser of the Hailey Turbine fall within the prohibitions of this act (chapter 3 of the 1951 session laws)?**

*Idaho Code* § 61-327 provides that no governmental or municipal corporation may acquire title to or an interest in the generation, transmission or distribution plant of an electric public utility in the State of Idaho. It is our belief that Longview Fibre Company is neither a governmental nor a municipal corporation. We find, therefore, that Longview Fibre does not fall within the prohibitions of the statute.

**Conclusion**

We find that the sale of the Hailey Turbine, as proposed by Idaho Power, is in the best interests of the Company's ratepayers. We further find that the Company's proposal to defer our ruling as to how the sale should be treated for ratemaking and accounting purposes is acceptable. The Company is directed to make a filing in this regard no later than September 30, 1993.

As an additional matter, Idaho Power's Certificate of Public Convenience and Necessity No. 272, for the Hailey Turbine, is hereby cancelled.



**ORDER**

IT IS HEREBY ORDERED that Idaho Power's Application for approval of the sale of the Hailey Turbine is granted consistent with the terms and conditions of this Order.

IT IS FURTHER ORDERED that the Company shall file for a determination of the accounting and ratemaking treatment to be given the sale of the Hailey Turbine no later than September 30, 1993.

IT IS FURTHER ORDERED that Idaho Power's Certificate of Public Convenience and Necessity No. 272 is hereby cancelled.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. IPC-E-92-9 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this Case No. IPC-E-92-9. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

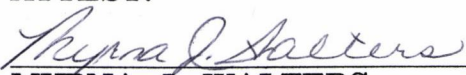
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho, this 27<sup>th</sup> day of January 1993.

  
MARSHA H. SMITH, PRESIDENT

  
DEAN J. MILLER, COMMISSIONER

  
RALPH NELSON, COMMISSIONER

ATTEST:

  
MYRNA J. WALTERS  
COMMISSION SECRETARY

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